

Poverty Reduction Strategy Papers

How Do They Treat the Private Sector?

ISSUE PAPER NUMBER 10



Bureau for Policy and Program Coordination
April 2004



PN-ACX-270

RELATED PUBLICATIONS

Poverty Reduction Strategy Papers: Review of Private Sector Participation (PN-ACU-918)

Evaluation Briefs on USAID's Approach to Poverty Reduction

Synthesis of Studies in Honduras, Mali, Romania, and Uganda (PN-ACU-011)

Honduras (PN-ACR-351)

Mali (PN-ACR-352)

Romania (PN-ACR-353)

Uganda (PN-ACR-354)

PPC Evaluation Working Papers on USAID's Approach to Poverty Reduction

Honduras (PN-ACR-481)

Mali (PN-ACR-482)

Uganda (PN-ACR-483)

Evaluation Briefs provide summaries of key findings. Evaluation Working Papers provide additional background information and data.

Poverty Reduction Strategy Papers

How Do They Treat the Private Sector?

Bureau for Policy and Program Coordination

April 2004

Contents

Introduction 1

Private Sector Participation in
PRSP Formulation and Monitoring 3

The Role Envisioned for the Private Sector in PRSPs 5

Conclusions 11

References 13

Annex 1. Business Environment in
PRSP Countries—Selected Indicators 15

Introduction

In recent years, the international development community has come to accept Poverty Reduction Strategy Papers (PRSPs)¹ as the prototypical manifestations of poor countries' national development strategies. This, however, was not the original intent of PRSPs. Initially, countries were required to prepare them as a condition for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. PRSPs were intended to guide the investment of those resources freed by debt relief into direct poverty-reducing activities, often in the education and health sectors. As PRSPs increasingly came to be seen as national development strategies, demands for what they should include grew.

Given this history, it would be surprising if PRSPs did not show some imbalance as development strategies. But because they have, in effect, become national development strategies, it is important that they prioritize those actions that are expected to have the greatest poverty-reducing impact. In this regard, one of the most common criticisms of PRSPs is that they generally have not taken adequate account of the potential contributions of the for-profit private sector in reducing poverty, despite the fact that a core principle underlying the development and implementation of PRSPs is that they be “country-driven—involving broad-based participation by civil society and *the private sector* in all operational steps” (emphasis added)(World Bank 2003).

Why is the private sector considered an important actor in the poverty reduction effort? The International Finance Corporation (IFC) notes that “more and better jobs offer the best (often the only) opportunity for upward mobility in the lifetimes of

poor people and their children” (2000, 2). Around the world, the private sector already is the largest source of employment. It is also the largest source of investment and plays a leading role in the generation and application of new ideas. The creation of new and better employment opportunities will, therefore, overwhelmingly occur in the private sector. The private sector is also a significant source of tax revenue in developing countries. Tax revenues finance the bulk of government expenditures on social services critical to poverty reduction. The private sector also can provide social services directly and assist governments in delivering services more cost effectively. For all these reasons, one would expect to find a substantial focus on the role of the private sector in national development strategies.

To better understand the extent to which PRSPs envision a vital role for the private sector in reducing poverty, USAID examined the first 27 PRSPs that were prepared. This Issue Paper summarizes the findings of that study (Fox, Batts, and Croake 2003). The PRSPs were first analyzed for evidence of private sector participation in their formulation and in future monitoring of PRSP implementation. Their content was then examined. The analysis required that the “essential elements” of a private sector-oriented development strategy be defined. However, as Rodrik (2003) has shown, while economic theory offers powerful insight into general principles that support economic growth, these principles do not map into clear rules for policymakers to follow to promote economic growth or even the narrower objective of encouraging private sector development. Thus, the analysis and conclusions in this paper rely on a consensus of expert opinion as to what constitutes a private sector-oriented development strategy. It concludes that, even under this somewhat mainstream definition, PRSPs generally recognize the contributions of the private sector in reducing poverty.

¹ This paper cites specific PRSPs in various places. Individual PRSPs—and relevant status, analysis, and assessment—are available from the World Bank's *Poverty Reduction Strategies and PRSPs* at www.worldbank.org/poverty/strategies/index.htm. Page references, where included, are to the most recent version.

It is important to note that this paper summarizes a desk study that examined the documentation of the participatory process and rhetorical commitments found in PRSPs. It did not attempt to assess the quality of the participatory process or the specific nature of the private sector's contributions to it. Nor did the study assess the extent to which policy commitments made in PRSPs were implemented. Such analysis would require detailed, country-specific research, which was beyond the scope of the study.

*Brian Frantz
Bureau for Africa
Office of Development Planning*

Private Sector Participation in PRSP Formulation and Monitoring

In the great majority of countries whose PRSPs were reviewed, the private sector was active in the discussions that led to the drafting of the documents. As summarized in Table 1, in 20 of the 27 countries the private sector is specifically identified as having been consulted in the preparation of

the PRSP. In 9 countries, the private sector is specifically identified as having participated in planning committees or teams involved in the preparation of the PRSP. In 12 countries, the private sector is identified as a participant in the future monitoring and evaluation of progress under the PRSP.

Table 1. Private Sector Participation Identified in PRSPs

	Private sector consulted in PRSP formulation?	Planning committee teams included private sector representatives?	Private sector involved in monitoring and evaluation?
Albania	Yes		Yes
Azerbaijan			
Benin	Yes		Yes
Bolivia			
Burkina Faso	Yes		
Cambodia	Yes		Yes
Chad	Yes	Yes	Yes
Ethiopia	Yes		
Ghana	Yes	Yes	Yes
Guyana	Yes	Yes	Yes
Honduras	Yes		Yes
Kyrgyz Republic	Yes	Yes	Yes
Malawi	Yes	Yes	
Mali			Yes
Mauritania	Yes		
Mozambique	Yes	Yes	
Nicaragua			Yes
Niger	Yes		
Rwanda	Yes		
Senegal	Yes	Yes	
Sri Lanka	Yes	Yes	Yes
Tajikistan	Yes		
Tanzania	Yes		
Uganda			
Vietnam			
Yemen	Yes	Yes	
Zambia			Yes
Total “Yes”	20	9	12

Note. A “yes” indicates the PRSP documents the participation of the private sector. A blank may be the result of either lack of private sector involvement or failure to specifically document it in the PRSP. Early PRSPs gave less detail about the participation process than later PRSPs.

Source: Fox, Batts, and Croake. *Poverty Reduction Strategy Papers: Review of Private Sector Participation*. (Washington, D.C.: USAID, 2003), PN-ACU-918.

The data in Table 1 likely understate the participation of the private sector, because some PRSPs simply do not include sufficient information. This is particularly true of early PRSPs, such as those from Uganda, Bolivia, and Nicaragua. These early PRSPs contain considerably less documentation of the participatory process used to develop the PRSP. More recently, documentation of the participatory process has become a standard section of the PRSP.

The data provide only a very crude approximation of private sector participation. For example, the term “civil society” may or may not refer to private sector participants as well as to nongovernmental organizations (NGOs) and other types of non-governmental actors. The PRSPs cannot provide

much clarity on the extent, degree, and level of private sector involvement in the PRSP preparation process. Moreover, the private sector is not a single entity but a collection of very diverse interests. Some of these interests have benefited from preferential government treatment. Others only hope for a “level playing field” in which efficiency and productivity win out over privilege and special interests.

The data also show a number of PRSPs, including Cambodia, Malawi, and Vietnam, where private sector participation appears to have been limited or peripheral. In such cases, the PRSP suggests a view of the private sector as subsidiary to, or responsible for following the lead of, government institutions and policymakers.

The Role Envisioned for the Private Sector in PRSPs

Fox, Batts, and Croake (2003) identify 10 criteria to assess the content of PRSPs for their private sector orientation. These criteria were derived from the mainstream literature on economic growth and private sector development.² The study then assessed the 27 PRSPs against these criteria. The major dimensions are discussed below. Table 2 summarizes the findings on a country-by-country basis. Because the methodology was subjective, reducing documents that frequently exceed 200 pages in length to a few rather simplistic characterizations, country data should be treated with caution. One might debate at length whether a country's PRSP deserves a "yes" or "no" on an individual criterion. Thus, country-by-country assessments in Table 2 should be viewed as suggestive, and greater attention should be given to the summary statistics.

1. Economic growth is critical for poverty reduction

There is little disagreement that economic growth is critical for poverty reduction. Reflecting this consensus, all 27 PRSPs clearly endorsed economic growth as essential for poverty reduction. Some PRSPs characterized economic growth as necessary, but not sufficient, for poverty reduction, but none was skeptical of economic growth per se. However, many PRSPs were optimistic about future rates of economic growth, with projected GDP growth rates typically in the 5–7 percent range. In many cases, projected growth rates were significantly higher than recent experience.

² Sources included the World Bank's continuously updated *Poverty Reduction Strategy Paper Sourcebook* (2003a), *Doing Business in 2004: Understanding Regulation* (2004a), and *Private Sector Development Strategy—Directions for the World Bank Group* (2002); Klein and Hadjimichael's *The Private Sector in Development: Entrepreneurship, Regulation, and Competitive Disciplines* (2003); Besley and Burgess's "Halving Global Poverty" (2003); and a series of studies on pro-poor economic growth carried out by Development Alternatives, Inc. and the Boston Institute for Developing Economies for USAID.

Sound Macroeconomics Are Key to Poverty Reduction in Mali

No overall strategy can succeed without a favorable macroeconomic framework that promotes growth. This is a necessary (but not sufficient) prerequisite for success in achieving the PRSP objectives. ... It is from this perspective that the macroeconomic framework represents a prerequisite strategic pillar for any poverty reduction strategy in Mali (Mali's PRSP, 36).

2. Market forces, not government subsidies, are needed for the private sector to play its poverty alleviating role.

The mainstream literature is unambiguous that the private sector's poverty reducing role arises from the free play of market forces. In general, governments should provide a favorable climate for private investment but not attempt to direct such investment into particular sectors or activities. At the same time, governments are often characterized as "pro-business" or "anti-business" on the basis of their willingness to offer monopoly power to major existing business interests. However, the last several decades of development experience have shown that progress will only occur in business environments where there is easy entry into business, and new firms are allowed to compete with established interests.

Table 2 shows that one-third of the PRSPs placed little faith in market forces as a tool for poverty reduction. The countries in which market forces

Table 2. Summary of Private Sector Orientation of PRSPs

	Economic growth critical?	Market forces central?	Private sector essential?	Open trade policies?	Address legal, regulatory, judicial regime?	Concrete benchmarks for private sector?	Private sector provision of infrastructure?	Private sector provision of social services?	Role of government in GDP cut?	Role of government reduced?
Albania	Yes	Yes	Yes	No	Yes	No	No	No	No	Yes
Azerbaijan	Yes	Yes	Yes	No	Yes	No	No	No	Yes	Yes
Benin	Yes	Yes	Yes	No	Yes	No	?	No	No	Yes
Bolivia	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
Burkina Faso	Yes	Yes	Yes	Yes	Yes	No	Yes	No	?	?
Cambodia	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Chad	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	?
Ethiopia	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes
Ghana	Yes	Yes	Yes	No	Yes	No	No	No	No	No
Guyana	Yes	?	Yes	Yes	Yes	No	Yes	Yes	?	Yes
Honduras	Yes	No	Yes	Yes	Yes	No	Yes	No	No	No
Kyrgyz Republic	Yes	Yes	Yes	Yes	Yes	No	Yes	?	Yes	Yes
Malawi	Yes	No	Yes	Yes	Yes	No	No	No	Yes	Yes
Mali	Yes	No	Yes	Yes	Yes	No	Yes	No	Yes	Yes
Mauritania	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Mozambique	Yes	No	Yes	No	Yes	No	Yes	No	?	No
Nicaragua	Yes	No	No	Yes	No	No	Yes	No	No	No
Niger	Yes	Yes	Yes	Yes	Yes	No	No	No	No	Yes
Rwanda	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	No
Senegal	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes
Sri Lanka	Yes	No	No	Yes	Yes	No	No	No	?	No
Tajikistan	Yes	Yes	Yes	Yes	Yes	Yes	Yes	?	Yes	Yes
Tanzania	Yes	No	Yes	No	Yes	No	Yes	No	No	Yes
Uganda	Yes	Yes	Yes	No	Yes	No	Yes	Yes	No	No
Vietnam	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No
Yemen	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	Yes
Zambia	Yes	No	Yes	No	Yes	Yes	Yes	No	No	No
Total “Yes”	27	17	25	18	26	7	19	5	9	16
Total “No”	0	9	2	9	1	20	7	20	14	9
Total “?”*	0	1	0	0	0	0	1	2	4	2

* “?” indicates that the orientation in the PRSP was unclear or ambiguous.

Source: Fox, Batts, and Croake. *Poverty Reduction Strategy Papers: Review of Private Sector Participation*. (Washington, D.C.: USAID, 2003), PN-ACU-918.

were not considered to be central typically saw government playing a leadership role, directing the private sector's activities in the most socially useful directions. In such cases, PRSPs indicated subsidies, directed credit, and preferential treatment for some enterprises or sectors would be used or applied. Benin, Cambodia, Ethiopia, and Guyana are cases in point: all sought to promote the private sector by directing development through government programs.

3. Private sector dynamism is essential for sustainable poverty reduction.

The importance of the private sector for economic growth and poverty reduction is obvious to any student of economic progress over the last century. There have been numerous experiments with control of the means of production by governments, or by various forms of collective or cooperative ownership. All have failed to deliver results in a sustained way as well as a market economy with a large and vibrant private sector—a characteristic of all countries with low levels of poverty in today's world. Consequently, the most promising approach is government support for an environment where economic growth is rapid and where the private sector is free to invest and innovate without heavy government control.

Nearly all of the 27 PRSPs acknowledged a key role for the private sector in poverty reduction, usually in conjunction with sound macroeconomic policies. However, there is a need to distinguish between support for the private sector and support for market forces. "Support for the private sector" is a phrase capable of covering over many development sins. It is probably more important to concentrate attention on a PRSP's commitment to the use of market forces than on its commitment to the private sector.

4. Open trade policies promote growth and reduce poverty.

During the last two decades, most countries with closed trade regimes fared poorly in terms of economic growth and poverty reduction. Countries

The Role of the Private Sector in Economic Growth in Ghana

Failure to acknowledge the preeminent role of the private sector in promoting growth has severely limited economic opportunities. Failure of the public sector to manage the macro economy has contributed to the deplorable failure of past development policies (Ghana's PRSP, 34).

that liberalized trade have generally done better in both regards. The World Bank's *PRSP Sourcebook* (2004b) makes a strong and careful case for trade liberalization as a tool for poverty reduction.

A large share of the PRSPs studied endorsed trade liberalization, but a minority endorsed export promotion while ignoring the key role of imports in improving welfare. Perhaps the most troublesome aspect of countries' trade policies, as articulated in PRSPs, was the strong interest expressed by a large number of African countries in regional free trade agreements among poor countries. The *PRSP Sourcebook* is unambiguous in its claim that such agreements are likely to be welfare-reducing, especially for poorer countries in the free trade area.

There was significant regional variation in PRSPs with respect to trade liberalization. Sub-Saharan African countries' PRSPs were less likely to include trade liberalization as a tool for poverty reduction than those of other regions. Only 8 of the 15 African countries reviewed included action in this area, compared to all 4 Latin American countries, and all but 1 each in Asia and the former Soviet bloc.

5. A good legal, regulatory, and judicial system is key to the private sector's capacity to reduce poverty.

The literature provides strong support for the proposition that a sound legal, regulatory, and judicial environment is critical for the private sector to

play its poverty reducing role. One of the lessons of the transition from communism in the Soviet bloc is that legal, regulatory, and judicial institutions are enormously important. Without rules and procedures that equalize opportunity, cronyism between governments and favored individuals and groups will interfere with the development of a market economy and with poverty reduction.

Table 2 shows that virtually all PRSPs supported improving the legal, regulatory, and judicial environment. Usually, this included steps to reduce corruption, strengthen the independence of the judiciary, and promote the rule of law. This is perhaps the most difficult area for judging the content of the commitments made in PRSPs. Often, PRSPs lack specificity on how such goals are to be achieved. And because of the central government's enormous power in many developing countries, much depends on the forbearance of national authorities in exercising that power.

Institutional and Legal Reform in Albania

Albania's PRSP is more sweeping than most in articulating efforts to improve the legal, regulatory, and judicial environment. It seeks to: "i) further improve checks and balances among the branches of power; ii) increase the planning capacity of government institutions; iii) increase the effectiveness of the institutions in the implementation of policies and laws; iv) increase financial efficiency; v) enhance accountability; vi) democratize, increase transparency, and reduce corruption" (PRSP, 53). In sum, the PRSP commits the government to many good reforms. The difficulty is with implementation, and Albania's PRSP is typical in its lack of specificity about actions designed to achieve these ambitious objectives.

6. Concrete benchmarks and timebound indicators of progress are needed to demonstrate serious governmental commitment.

Most PRSPs express a rhetorical commitment to private sector development. However, such statements are difficult to evaluate unless commitments are sufficiently concrete and timebound to track performance in turning general statements into policies. Unfortunately, only 7 of the 27 PRSPs reviewed provide such specificity—even using a far-from-strict standard. This is clearly a neglected area in the PRSP process. For example, joint staff assessments, which are prepared by the staffs of the World Bank and International Monetary Fund for reviews of PRSPs by their respective executive boards, generally give considerable attention to macroeconomic and poverty-related indicators, but in only a few cases point to the lack of concrete indicators of progress in the area of private sector development.

Because private sector dynamism is important to poverty reduction, more attention should be given to the development of relevant indicators. Some important work has been done in this area, most notably by the World Economic Forum's *Global Competitiveness Report*. Of the more than 180 indicators used by the Forum to assess the climate for private sector development, approximately 100 might be suggestive of the extent to which the private sector is able to play its poverty-reducing role in a given country (World Economic Forum 2004). Only a few of the countries that have submitted PRSPs are surveyed by the *Global Competitiveness Report*, but the measures could be adapted by any developing country to track progress on private sector-related dimensions.

The World Bank's *Doing Business in 2004: Understanding Regulation* (2004) contains a new database of indicators that relate directly to the environment for private sector development in developing countries. While it does not include as many variables as the *Global Competitiveness Report*, nor are historical trends available, it has several distinguishing features. First, the World Bank provides

Selecting Indicators for Monitoring the Cost of Transporting Goods in Cambodia

Ideally, PRSPs should include two types of indicators: specific commitments by governments to improve the environment for private sector development and outcome indicators that reflect the cost of doing business. To understand how this might operate, consider the case of Cambodia. Cambodia's PRSP notes that the cost of transporting imported goods from Europe to the country's main port is less than the cost of transporting those same goods from the port to Phnom Penh. The PRSP might set targets for future cost reductions, which could be monitored and compared with actual trends. Alternatively, the PRSP could identify some timebound policy actions—e.g., simplification of customs regulations or deregulation of internal transport—intended to address the problem. Hopefully, the PRSP would contain both policy actions as the basis for regular monitoring and consultation and output result indicators such as the trend in the cost of internal transport.

comparative data on 130 countries, making it significantly larger than the Forum's database.³ Second, its methodology is more directly comparable across countries and relies less on the judgments of a small sample of business leaders. Third, it is much more attuned to the conditions facing domestic as well as foreign enterprises, whereas the Forum's data is most directly relevant to global investment and multinational corporations. Finally, it will be updated annually and will include new variables in the future.

³ Most notably, it includes 25 of the 27 PRSP countries reviewed here, while the Forum's data includes only four and concentrates instead on more advanced countries. See Annex 1 for a selection of the World Bank (2004) indicators for those 25 countries.

7. Private sector provision of infrastructure offers important opportunities to enhance efficiency and therefore should be considered.

The literature suggests that provision of infrastructure services by the private sector is generally more promising than provision by governments, and most PRSPs studied contemplate a role for the private sector in infrastructure services. Only seven PRSPs failed to include this option as part of the poverty reduction strategy. Even in some of these cases, the PRSP may not have captured actual intentions, because the discussion of infrastructure in the PRSPs is frequently quite general. In some of the PRSPs that did not consider this option, the government tended to be more generally suspicious of the private sector.

8. Opportunities for private sector provision of social services also offer potential efficiency gains and should be explored.

All governments are responsible for ensuring provision of key social services. However, governments should not necessarily act as the providers of such services. Governments tend to establish relatively rigid approaches, innovate less than the private sector, and carry on activities long after their usefulness has ended. As a result, the use of private sector agents, even when governments choose the activities to be undertaken, should not be ignored as a possible vehicle for social service delivery. In fact, the poorest people in some developing countries already rely heavily on private providers for education and health services.

Table 2 suggests that only a small minority of the 27 PRSPs consider involving the private sector in the delivery of social services. The tendency of governments to fail to take account of nongovernmental activities—to ignore what is not under their direct control—is a common weakness in government programs. The countries that do consider the private sector as a potential ally in the delivery of social services identify only limited actions that might encourage the private sector's involvement, usually with very general statements.

9. Governments must avoid “crowding out” the private sector.

Governments are critical to establishing the basic order on which all sustainable economic activity is based. Governments provide many important services to their citizens, and governmental authority is vital to the existence of basic human and property rights. Governments are also necessary for the extension of education and basic health services to the population. However, government actions on too large a scale can “crowd out” the private sector. Goods or services offered free or at subsidized prices by governments will not be offered by the private sector. If government borrowing soaks up available savings, capital will not be available to the private sector for investment. Excessive taxation of income generators could reduce or eliminate incentives to produce more. If the share of GDP accounted for by government activity rises, that of the private sector will necessarily fall. As indicated in Table 2, only a minority of the PRSPs envision a future in which private economic activity grows at a more rapid rate than that of government.

The literature is ambiguous on the appropriate size of government relative to GDP. Developed countries, characterized by a high level of economic wellbeing, vary widely in the size of government relative to GDP. At the same time, developed countries with large governments also have highly trained and generally competent governments. Because many developing country governments suffer from capacity constraints, a case can be made that most should draw back from their wide-ranging role in the economy and concentrate on core activities. Thus, expansion of government’s control of the economy should occur only after it has demonstrated competence in the core government functions.

10. In most developing countries, governments should step back from controls on economic activity.

There is broad consensus that many developing countries have gone too far in attempting to direct future economic activity. *Doing Business in 2004* (World Bank 2004) concludes that developing

The Private Sector as an Ally in the Delivery of Social Services

Only 5 of 27 PRSPs reviewed consider the private sector to be an ally in the delivery of social services—and do so in very general terms. Albania’s PRSP is the most explicit. It articulates an intention to privatize some health services, including medical personnel, with the state overseeing the quality of practices. Benin’s PRSP calls for public-private partnerships in the health sector but offers little specificity. In the education sector, it notes the important role being played by private schools but only proposes action for public schools. Honduras’s PRSP only identifies a private-sector role in worker training. Mauritania’s PRSP states that “development of private education will be encouraged by implementation of appropriate incentives and by fostering greater private investor involvement in this type of education,” but offers no further details (34). Mauritania’s and Rwanda’s PSRPs state the countries’ intentions to privatize urban water supplies.

countries regulate the private sector far more than developed countries. This higher degree of regulation is in place despite a far lower capacity to enforce regulation. As a result, avoidance of law, the informal economy, and corruption are more common. The literature suggests narrowing the regulatory framework to core areas where enforcement is both possible and important to the protection of society.

Table 2 shows that most PRSPs plan to reduce the role of government in controlling and directing the economy. One-third of the PRSPs reviewed, however, were judged to be seeking a larger government role in economic activity. This was characteristic of some countries in each region—except the former Soviet bloc countries, which all intended to reduce the role of government.

Conclusions

In general, the study concludes that PRSPs do appropriately take the private sector into account in their strategic conception, development, and implementation. In the majority of countries whose PRSPs were examined, the private sector participated in the PRSP process. In most cases, PRSPs treated the private sector as a key actor in achieving poverty reduction over the long term. And there is little basis for concluding that recent PRSPs differ in their treatment of the private sector than the earliest PRSPs.

Two related problems emerged from PRSPs that did not treat the private sector as a full partner in the poverty reduction effort. First, some PRSPs saw the private sector as an adjunct of government policy, with governmental directives guiding the devel-

opment of the private sector. Second, some PRSPs saw subsidization of the private sector, or particular industries within it, as a key tool for poverty reduction. In either case, the resulting strategy is inconsistent with the historical record on the contribution of the private sector to poverty reduction or mainstream policy advice.

The most serious weakness observed in the majority of PRSPs was the lack of concrete benchmarks or indicators for monitoring commitments to improve the investment climate for the private sector. Only seven PRSPs met the study's modest standards in this area. However, World Bank (2004) indicators for measuring the business environment may be an important new tool for remedying this problem in future PRSPs.

References

- Besley, Timothy, and Robin Burgess. 2003. "Halving Global Poverty." *Journal of Economic Perspectives* 17(3): 3–22.
- Fox, James W., Kelly A. Batts, and Katie Croake. 2003. *Poverty Reduction Strategy Papers: Review of Private Sector Participation*. Washington, D.C.: USAID. PN-ACU-918. <http://www.dec.org/pdf_docs/PNACU918.pdf>
- International Finance Corporation (IFC). 2000. *Paths Out of Poverty: The Role of Private Enterprise in Developing Countries*. Washington, D.C.: IFC. <http://www2.ifc.org/publications/paths_out_of_poverty.pdf>
- Klein, Michael U., and Bitá Hadjimichael. 2003. *The Private Sector in Development: Entrepreneurship, Regulation, and Competitive Disciplines*. Washington, D.C.: World Bank.
- Rodrik, Dani. 2003. "Growth Strategies." Cambridge: Harvard University. <<http://ksghome.harvard.edu/~drodrik.academic.ksgh/growthstrat10.pdf>>
- World Bank. 2002. "Private Sector Development Strategy—Directions for the World Bank Group." Washington, D.C.: World Bank. <<http://rru.worldbank.org/documents/PSDStrategy-April%209.pdf>>
- World Bank. 2003. "Overview of Poverty Reduction Strategies." Washington, D.C.: World Bank. <<http://www.worldbank.org/poverty/strategies/overview.htm>>
- World Bank. 2004a. *Doing Business in 2004: Understanding Regulation*. Washington, D.C.: World Bank and Oxford University Press.
- World Bank. 2004b. *Poverty Reduction Strategy Paper Sourcebook*. Washington, D.C.: World Bank. <<http://www.worldbank.org/poverty/strategies/sourcons.htm>>
- World Economic Forum. 2004. *Global Competitiveness Report*. Geneva: World Economic Forum. <<http://www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme%5CGlobal+Competitiveness+Report%5CGlobal+Competitiveness+Report+2003-2004>>

Annex 1. Business Environment in PRSP Countries—Selected Indicators

The World Bank's recent database of indicators relating directly to the environment for private sector development. Table 3 presents selected indicators especially relevant to the process of establishing and operating a private enterprise.

Table 3. Business Environment in PRSP Countries, Selected Indicators

	Starting a business				Enforcing contracts				Getting credit					
	Number of procedures	Duration (days)	Cost (percent of GNI per capita)	Minimum capital (percent of GNI per capita)	Number of procedures	Duration (days)	Cost (percent of GNI per capita)	Procedural complexity index	Public credit registry operates	Year public credit registry established	Public credit registry coverage (borrowers per 1000 per capita)	Public credit registry index	Public credit bureau coverage (borrowers per 1000 per capita)	Creditor rights index
Albania	11	47	65	51.7	37	220	72.6	76.4	No	..	0	0	0	3
Azerbaijan	14	106	17	0	25	115	3.3	53	No	..	0	0	0	3
Benin	9	63	189.2	377.6	44	248	31	53	Yes	1962	1	22	0	1
Bolivia	18	67	166.6	0	44	464	5.3	78	Yes	1988	55	58	134	2
Burkina Faso	15	136	325.2	652.2	24	376	172.8	70.8	Yes	1962	1	22	0	1
Cambodia	11	94	553.8	1825.80	18	210	268.5	78	No	..	0	0	0	2
Chad	19	73	395.3	652.2	50	604	58.4	72	Yes	1972	0.2	49	0	1
Ethiopia	8	44	421.6	1756.10	24	895	34.6	52.1	No	..	0	0	0	3
Ghana	10	84	111.7	1.2	21	90	23.8	33.3	No	..	0	0	0.5	1
Honduras	14	80	72.8	165.4	32	225	6.7	71.5	Yes	1998	45	42	0	2
Kyrgyz Republic	9	26	13.4	74.8	44	365	254.7	47.9	No	..	0	0	0	3
Malawi	11	45	125.4	0	16	108	520.6	47.9	No	..	0	0	0	2
Mali	13	61	232.2	597.8	27	150	7	70.8	Yes	1962	1	22	0	1
Mauritania	11	73	109.7	896.7	..	..	..	..	Yes	..	..	..	0	3
Mozambique	15	153	99.6	30.2	18	540	9.1	70.8	Yes	1997	1	52	0	2
Nicaragua	12	71	337.8	0	17	125	17.7	79.2	Yes	1994	50	45	0	4
Niger	11	27	446.6	844	29	365	57.1	63.2	Yes	1962	1	22	0	1
Rwanda	9	43	232.3	457.3	0	..	87.1	36	Yes	1990	0.4	57	0	1
Senegal	9	58	123.6	296.1	30	335	48.6	75	Yes	1962	2	22	0	1
Sri Lanka	8	58	18.3	0	17	440	7.6	59.4	No	..	0	0	9	2
Tanzania	13	35	199	0	14	127	3.8	61.5	No	..	0	0	0	2
Uganda	17	36	135.1	0	16	99	10	40.4	No	..	0	0	0	2
Vietnam	11	63	29.9	0	28	120	8.5	45.8	Yes	1999	2	67	0	0
Yemen	13	96	264.1	1716.9	27	240	0.5	59.7	Yes	1975	7	38	0	0
Zambia	6	40	24.1	137.8	16	188	15.8	32.4	No	..	0	0	0	1

Source: World Bank, Doing Business in 2004: Understanding Regulation. (Washington, D.C.: World Bank, 2004).

This Issue Paper, one in a series that USAID produces regularly, provides analytical input to policymakers and practitioners on the extent to which Poverty Reduction Strategy Papers (PRSPs) account for the for-profit private sector in reducing poverty. The views in this paper do not necessarily represent those of the Agency. This paper summarizes Poverty Reduction Strategy Papers: Review of Private Sector Participation (PN-ACU-918) by James Fox, Kelly Batts, and Katie Croake, supported by the Bureau for Policy and Program Coordination, the Bureau for Africa, and the Bureau for Latin America and the Caribbean.

This Issue Paper can be ordered from USAID's Development Experience Clearinghouse (DEC). To order or download, go to www.dec.org and enter PN-ACX-270 as the document identification number in the search box. The DEC may also be contacted at 8403 Colesville Rd., Ste 210, Silver Spring, MD 20910; tel 301-562-0641; fax 301-588-7787; email docorder@dec.cdi.org.

Editorial, design, and production assistance was provided by IBI—International Business Initiatives, Arlington, Va., under contract no. HFM-C-00-01-00143-00. For more information, contact IBI's Publications and Graphics Support Project staff at 703-525-2277 or mail@ibi-usa.com.

For more information, contact

U.S. Agency for International Development

Washington, D.C. 20523-4810

Telephone: 202-712-4810

Internet: www.usaid.gov